

Andrew White
The Office of Gas and Electricity Markets
9 Millbank
London
SW1P 3GE

27 November 2017

Dear Andrew,

Competitive Deployment of Storage in a Flexible Energy System: Changes to the Electricity Distribution Licence

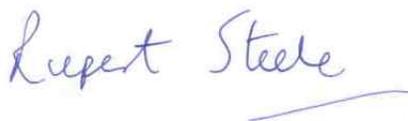
Thank you for the opportunity to respond to the above consultation. Our answers to the consultation questions are in Annex 1 to this letter. This response is from ScottishPower. Our networks business is responding separately on matters specific to its business.

ScottishPower agrees with Ofgem's assessment that widespread network operation of electricity storage facilities could give rise to risks of distortions or foreclosure in the uptake of storage and other forms of flexibility such as demand side response. We are therefore supportive of the objective of restricting distribution network operators (DNOs) so that they cannot normally operate electricity storage facilities. As far as we can tell, the proposed new licence condition SLC 43B achieves this objective.

We recognise the benefits that storage can provide to the operation of distribution networks and we think DNOs should normally be able to procure these services from the market. However, we acknowledge that there may be limited circumstances where such market provision does not materialise, and we therefore agree that it is sensible for the proposed new SLC 43B to allow Ofgem to consent to DNO operation of storage provided the DNO's application meets the specified criteria.

Should you have any questions in relation to this response, please do not hesitate to contact me.

Yours sincerely,



Rupert Steele
Director of Regulation

**COMPETITIVE DEPLOYMENT OF STORAGE IN A FLEXIBLE ENERGY SYSTEM:
CHANGES TO THE ELECTRICITY DISTRIBUTION LICENCE - SCOTTISH
POWER RESPONSE**

Chapter 2: Proposed new condition in the electricity distribution licence

Question 1: do you agree that the proposed new condition will ensure legal unbundling of DNOs from the operation of storage that benefits from an exemption to hold a generation licence?

Yes. The proposed SLC 43B.1 states “*Except with a direction from the Authority, the licensee must not carry out the activity specified in Section 4(1)(a) of the Act*”. The activity specified in Section 4(1)(a) of the Electricity Act 1989 is “*generates electricity for the purpose of giving a supply to any premises or enabling a supply to be so given*”. We believe this captures all relevant electricity generation whether licensed or not, and hence of storage.

Question 2: Do you agree that the same principles of unbundling should apply to IDNOs? Do you have any views on the application of the specific new condition proposed here applying to IDNOs?

Yes, we agree the same unbundling principles should apply to IDNOs. To the extent that IDNOs require storage services, we consider it would be reasonable for them to procure them from the market. Similarly, we don't consider it would be unduly onerous for IDNOs to apply to Ofgem for a consent to operate storage where required.

Question 3: Do you agree that DNOs should be able to directly own and operate small-scale storage for the purposes of providing uninterruptible power supplies (UPS) at substations?

Yes, this is clearly an important aspect of network resilience and quality of supply to consumers. Furthermore, as storage used for UPS cannot export electricity beyond the substation there are no risks to the market.

Do you agree that DNOs should be able to directly own and operate small-scale storage for the time-limited purposes of emergency restoration and maintenance?

Yes, this is another important aspect of network resilience and therefore of benefit to consumers. The time-limited use of such storage facilities in the context of planned or unplanned outages should not pose any risk to the market.

In addition to post-fault restoration and pre-outage maintenance, DNOs should also be permitted to deploy storage in certain pre-fault situations (eg in anticipation of a fault, where the impact of the fault would be severe).

Do you think DNOs should be able to directly own and operate storage for any other specific applications?

We agree with Ofgem that there may be a limited number of exceptional circumstances (other than those mentioned above) where it would be appropriate for DNOs to operate storage directly. For example, if there is an economic case for storage, but (for whatever reason) the market fails to come forward with an appropriate offer, it could be in consumers' interests for the DNO to take on the operation as a last resort. We agree that such exceptions would need to be subject to the safeguards set out in paras 2.13 to 2.15 of the consultation.

Question 4: Do you have any views on the treatment of existing islanded system generation currently owned by DNOs?

It would seem sensible to allow current schemes in place to remain under DNO operation, and SLC 43B could be applied when the assets come up for renewal. The example of Shetland mentioned in the consultation suggests market testing of such facilities should not be unduly burdensome.

Do you have any views on the treatment of future use of DNO owned and operated generation of storage in similar island situations?

We think it is proportionate to apply SLC 43B in these situations, requiring the DNO to undertake competitive procurement of storage requirements in the first instance.

Chapter 3: Guidance document

Question 1: What are your views on the three high-level criteria proposed as the basis for assessing applications for consent?

Our views on the three proposed criteria are as follows:

1) Market is unavailable to provide an efficient solution

We agree that DNOs should be able to demonstrate under this criterion that they have undertaken a well-designed and open tender process, allowing sufficient time for interested parties to respond.

2) Storage identified as the most economic solution to a specific network issue

This would seem to be fundamental to the application so we agree with its inclusion.

3) Minimise conflicts of interest and mitigate distortions to the market

We think that under this criterion, wherever applicable, arrangements should enable a legally separate entity to sell storage services to the market, outside of the DNO's operational requirements.

Do think there are other criteria which should also be included?

There may also be merit in ensuring that arrangements are in place to enable the facilities to be put out to tender for third party operation in future. As the storage market develops and there is greater information and experience of DNOs' requirements and of battery operation, other parties may be able to operate the storage facility more efficiently than the DNO following the initial application.

Question 2: Do you have any other views on the scope or content of the proposed guidance document?

No.

Question 3: Do you have any views on the process that should apply to the assessment of applications?

We think that wherever possible, Ofgem should be able to seek stakeholder input regarding an application, ideally by consultation. If DNOs are expected to have gone out to tender in the first instance, the details of the planned use of storage should not be commercially sensitive.

Chapter 4: Reporting and monitoring

Question 1: Do you have any views on reporting requirements for DNOs that own/operate storage assets?

We agree it is likely that operational asset information and network requirements will aid market development and therefore should be made public. Such information disclosure should be consistent with the transition to distribution system operators (DSOs). This would be part of the information DSOs would be expected to make available to market participants.

Question 2: Are there any particular types of data that, if published, could facilitate entry of competitive parties?

As noted in the response from ScottishPower Energy Networks, there may be a role for DNOs to provide 'heat maps' showing the optimum location on their networks for deployment of storage.

Is there any other information or data that you think DNOs hold about the deployment of storage on their networks that they could usefully make public?

We are not aware of any information other than already identified in the consultation and our response to Question 1.